

Iosco County Medical Care Facility

**Financial Report
with Additional Information
December 31, 2008**

Iosco County Medical Care Facility

Contents

Report Letter	I
Management's Discussion and Analysis	2-5
Financial Statements	
Balance Sheet	6
Statement of Revenue, Expenses, and Changes in Net Assets	7
Statement of Cash Flows	8-9
Notes to Financial Statements	10-16
Additional Information	17
Report Letter	18
Schedule of Net Service Revenue	19
Schedule of Operating Expenses	20



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Independent Auditor's Report

To the Iosco County Department of
Human Services Board
Iosco County Medical Care Facility

We have audited the accompanying balance sheet of Iosco County Medical Care Facility (a component unit of Iosco County, Michigan) (the "Facility") as of December 31, 2008 and 2007 and the related statements of revenue, expenses, and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Facility's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Iosco County Medical Care Facility at December 31, 2008 and 2007 and the results of its operations and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis is not a required part of the basic financial statements but is supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Plante & Moran, PLLC

February 23, 2009

Iosco County Medical Care Facility

Management's Discussion and Analysis

Our discussion and analysis of Iosco County Medical Care Facility's (the "Facility") financial performance provides an overview of the Facility's financial activities for the fiscal years ended December 31, 2008 and 2007. Please read it in conjunction with the Facility's financial statements, which begin on page 6.

Financial Highlights

- The Facility's net assets increased in each of the past two years with a \$184,000 or 1.9 percent increase in 2008, and a \$702,000 or 7.9 percent increase in 2007.
- The Facility reported operating (loss) income in 2008 of \$(382,735) and 2007 of \$54,328.
- Other income decreased by \$80,900, or 12.5 percent, in 2008 compared to 2007. Other income increased in 2007 by \$61,600, or 10.5 percent, compared to 2006.

Using this Annual Report

The Facility's financial statements consist of three statements - a balance sheet, a statement of revenues, expenses, and changes in net assets, and a statement of cash flows.

The Balance Sheet and Statement of Revenues, Expenses, and Changes in Net Assets

Our analysis of the Facility's finances begins on page 6. One of the most important questions asked about the Facility's finances is, "Is the Facility as a whole better or worse off as a result of the year's activities?" The balance sheet and the statement of revenues, expenses, and changes in net assets report information about the Facility's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Facility's net assets and the changes in them. One can think of the Facility's net assets - the difference between assets and liabilities - as one way to measure the Facility's financial health, or financial position. Over time, increases or decreases in the Facility's net assets are one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the Facility's occupancy and resident mix, as well as local economic factors to assess the overall health of the Facility.

The Statement of Cash Flows

The final required statement is the statement of cash flows. The statement reports cash receipts, cash payments, and net changes in cash resulting from operating, investing, and financing activities. It provides answers to such questions as "where did cash come from?", "what was cash used for?", and "what was the change in cash balance during the reporting period?"

The Facility's Net Assets

The Facility's net assets are the difference between its assets and liabilities reported in the balance sheet on page 6. The Facility's net assets increased in each of the past two years by \$184,404 (1.9 percent) in 2008 and \$702,367 (7.9 percent) in 2007, as you can see from Table 1.

Iosco County Medical Care Facility

Management's Discussion and Analysis (Continued)

Table I - Assets, Liabilities, and Net Assets

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Assets			
Current assets	\$ 3,797,631	\$ 3,998,182	\$ 4,018,174
Noncurrent assets	<u>7,052,980</u>	<u>6,642,405</u>	<u>5,998,207</u>
Total assets	10,850,611	10,640,587	10,016,381
Liabilities - Current liabilities	<u>1,097,777</u>	<u>1,072,157</u>	<u>1,150,318</u>
Net Assets			
Invested in capital assets - Net of related debt	5,227,924	5,061,221	4,690,181
Unrestricted	<u>4,524,910</u>	<u>4,507,209</u>	<u>4,175,882</u>
Total net assets	<u>\$ 9,752,834</u>	<u>\$ 9,568,430</u>	<u>\$ 8,866,063</u>

The Facility ended fiscal year 2008 in a strong financial position with operating revenues being greater than operating expenditures. This is attributable to a consistent resident census of 91 percent throughout the year, the continued inclusion in the State's Quality Assurance Assessment Program, as well as the continued support of County residents through a local millage.

Operating Results and Changes in the Facility's Net Assets

In 2008, the Facility's net assets increased by \$184,404, or 1.9 percent, as shown in Table 2. This increase is made up of various components. Net assets also increased 7.9 percent for 2007, or \$702,367, compared with the previous year.

Iosco County Medical Care Facility

Management's Discussion and Analysis (Continued)

Table 2 - Operating Results and Changes in Net Assets

	2008	2007	2006
Operating Revenues			
Net service revenue	\$ 5,398,227	\$ 5,428,746	\$ 5,238,816
Other operating revenue	29,127	25,966	19,255
Proportionate share reimbursement	-	-	124,465
Quality assurance supplement	691,433	678,178	816,927
Total operating revenues	6,118,787	6,132,890	6,199,463
Operating Expenses			
Salaries	3,093,285	2,981,866	2,997,281
Other expenses	3,408,237	3,096,696	3,145,336
Total operating expenses	6,501,522	6,078,562	6,142,617
Operating Loss (Income)	(382,735)	54,328	56,846
Other Income (Loss)			
Interest income	100,161	189,692	159,527
Loss on disposal	(1,277)	-	(3,971)
Contributions	2,200	444	3,259
Property tax proceeds	466,055	457,903	427,584
Total other income	567,139	648,039	586,399
Change in Net Assets	455,965	702,367	643,245
Net Assets - Beginning of year	9,568,430	8,866,063	8,222,818
Net Assets - End of year	\$ 9,752,834	\$ 9,568,430	\$ 8,866,063

Operating Results and Changes in Net Assets

Operating income decreased \$437,000 from 2007 to 2008. This is attributable to a 0.2 percent decrease in operating revenue and a 6.9 percent increase in operating expenses in 2008. However, with the decrease in operating income, the Facility was able to increase its net assets by \$184,404. This is primarily attributable to the local millage collections of \$466,055 and interest of \$100,161 received during the year.

Iosco County Medical Care Facility

Management's Discussion and Analysis (Continued)

Capital Asset Administration

Capital Assets

The Facility is committed to utilizing its strong financial position to provide the residents of Iosco County with quality care in a homelike environment. Within the last few years, the Facility has been able to complete over \$1,000,000 worth of renovations to its building and grounds, improving its aesthetics as well as resident safety. The Facility is also currently under contract with a local builder to build a 10-bed “small house” unit. This 10-bed unit will not increase the Facility’s total number of beds; however, it will allow for 20 more private rooms, which is one of the first questions asked by prospective long-term care clients. This project is being funded through cash reserves and partly from the Quality Assurance Assessment Program.

Future plans for the Facility include the continuance of converting semi-private rooms to private rooms. The Facility has a couple of different options for doing this and will be exploring each one thoroughly to determine which option is best. The Facility plans to leverage its financial position as well as possible government funding programs to complete future projects. It should be noted that the Facility is preparing to fund these expansions without any debt obligations for itself or Iosco County.

Other Economic Factors

Fiscal year 2009 funding for the Medical Care Facility is not as bleak as one might think. For another year, the Facility will be included in the State’s Quality Assurance Assessment Program (\$200,000). The Facility will also be receiving year three millage proceeds (\$500,000) from a 10-year operational millage approved by the voters of Iosco County. Medicaid and Medicare reimbursements appear to be stable at this time for the upcoming year as well, due to the proposed economic stimulus package by the federal government.

As always, the federal and state regulatory processes pose the biggest risk to the Facility. It only takes one mistake by an employee or one misfortune involving a resident to lead the Facility into regulatory noncompliance. Regulatory issues can be directly related to financial reimbursement exclusions which could be devastating to a facility’s financial position. It is important to note, the management team of this Facility is committed to providing quality resident care. The team actively participates in a quality assurance program that includes evaluating and revising its policies and procedures, providing on-going training to staff, staying engaged in the day-to-day care provided to residents, and hiring the proper professionals to help ensure quality care is being delivered.

Contacting the Facility's Financial Management

This financial report is designed to provide our residents, suppliers, taxpayers, and creditors with a general overview of the Facility's finances and to show the Facility's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Facility's administrator's office at Iosco County Medical Care Facility, 1201 Harris, Tawas City, MI 48763.

Iosco County Medical Care Facility

Balance Sheet

	December 31, 2008	December 31, 2007
Assets		
Current Assets		
Cash and cash equivalents (Note 2)	\$ 2,271,423	\$ 2,855,830
Resident accounts receivable (Note 3)	926,171	541,437
Taxes receivable	501,016	504,138
Other current assets	99,021	96,777
Total current assets	3,797,631	3,998,182
Assets Limited as to Use (Note 2)	1,825,056	1,581,184
Property and Equipment - Net (Note 4)	5,227,924	5,061,221
Total assets	<u><u>\$ 10,850,611</u></u>	<u><u>\$ 10,640,587</u></u>
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	\$ 101,726	\$ 147,516
Funds held for residents	2,944	4,343
Accrued liabilities and other:		
Accrued compensation and related liabilities	128,626	104,674
Accrued compensated absences	250,735	236,238
Deferred tax revenue	501,016	504,138
Other accrued liabilities	112,730	75,248
Total current liabilities	1,097,777	1,072,157
Net Assets		
Invested in capital assets - Net of related debt	5,227,924	5,061,221
Unrestricted	4,524,910	4,507,209
Total net assets	9,752,834	9,568,430
Total liabilities and net assets	<u><u>\$ 10,850,611</u></u>	<u><u>\$ 10,640,587</u></u>

Iosco County Medical Care Facility

Statement of Revenue, Expenses, and Changes in Net Assets

	Year Ended December 31	
	2008	2007
Operating Revenue		
Net service revenue	\$ 5,398,227	\$ 5,428,746
Other operating revenue	29,127	25,966
Quality assurance supplement	691,433	678,178
Total operating revenue	6,118,787	6,132,890
Operating Expenses		
Salaries	3,093,285	2,981,866
Other expenses	3,408,237	3,096,696
Total operating expenses	6,501,522	6,078,562
Operating (Loss) Income	(382,735)	54,328
Other Income (Loss)		
Interest income	100,161	189,692
Loss on disposal	(1,277)	-
Contributions	2,200	444
Tax revenue	466,055	457,903
Total other income	567,139	648,039
Increase in Net Assets	184,404	702,367
Net Assets - Beginning of year	9,568,430	8,866,063
Net Assets - End of year	\$ 9,752,834	\$ 9,568,430

Iosco County Medical Care Facility

Statement of Cash Flows

	Year Ended	
	December 31, 2008	December 31, 2007
Cash Flows from Operating Activities		
Cash received from residents and third-party payors	\$ 5,013,493	\$ 5,345,632
Cash paid to employees and suppliers	(6,223,423)	(5,913,371)
Quality assurance assessment	691,433	678,178
Other operating receipts	29,127	25,966
Net cash (used in) provided by operating activities	(489,370)	136,405
Cash Flows from Noncapital Financing Activities		
Resident trust (withdrawals) deposits	(1,399)	488
Property taxes	469,177	457,903
Contributions and noncapital grants	2,200	444
Net cash provided by noncapital financing activities	469,978	458,835
Cash Flows from Investing Activities - Interest received	100,161	189,692
Cash Flows from Capital and Related Financing Activities -		
Purchase of property and equipment	(421,304)	(616,858)
Net (Decrease) Increase in Cash and Cash Equivalents	(340,535)	168,074
Cash and Cash Equivalents - Beginning of year	4,437,014	4,268,940
Cash and Cash Equivalents - End of year	<u>\$ 4,096,479</u>	<u>\$ 4,437,014</u>
Balance Sheet Classification of Cash and Cash Equivalents		
Cash and cash equivalents	\$ 2,271,423	\$ 2,855,830
Assets limited as to use	1,825,056	1,581,184
Total cash and cash equivalents	<u>\$ 4,096,479</u>	<u>\$ 4,437,014</u>

Iosco County Medical Care Facility

Statement of Cash Flows (Continued)

	Year Ended	
	December 31, 2008	December 31, 2007
Reconciliation of Operating (Loss) Income to Net Cash from Operating Activities		
Operating (loss) income	\$ (382,735)	\$ 54,328
Adjustments to reconcile operating (loss) income to net cash from operating activities:		
Depreciation	253,324	245,818
Provision for bad debts	22,778	(50,364)
Changes in assets and liabilities:		
Resident accounts receivable	(407,512)	(32,750)
Other current assets	(2,244)	24,660
Decrease in accounts payable	(45,790)	(122,117)
Accrued compensation	23,952	20,687
Other accrued liabilities	48,857	(3,857)
Net cash (used in) provided by operating activities	<u>\$ (489,370)</u>	<u>\$ 136,405</u>

There were no significant noncash investing, capital, and financing activities for 2008 and 2007.

Iosco County Medical Care Facility

Notes to Financial Statements December 31, 2008 and 2007

Note 1 - Nature of Business and Significant Accounting Policies

Iosco County Medical Care Facility (the "Facility") is a component unit of the County of Iosco (the "County"). The financial statements of the Facility are included in the County's basic financial statements.

The Facility is an 83-bed, long-term medical care unit owned and operated by Iosco County. It is governed by the Iosco County Department of Human Services Board. This board consists of three members, two of whom are appointed by the County Board of Commissioners and one who is appointed by the Michigan governor. Further, the County Board of Commissioners approves the Facility's revenue and expenses as a line item in the County's budget.

The accounting policies of the Facility conform to accounting principles generally accepted in the United States of America as applicable to local governmental units. Because the Facility provides a service to citizens that is financed primarily by a user charge, the Facility uses Enterprise Fund accounting. Revenue and expenses are recognized on the accrual basis using the economic resources measurement focus.

Enterprise Fund Accounting - The Facility uses Enterprise Fund accounting. Revenue and expenses are recognized on the accrual basis using the economic resources measurement focus. Based on Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, as amended, the Facility has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements.

Basis for Presentation - The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB) in Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, issued in June 1999. The Facility follows the business-type activities reporting requirements of GASB Statement No. 34, which provides a comprehensive look at the Facility's financial activities.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents - Cash and cash equivalents include certain investments in highly liquid debt instruments with original maturities of three months or less.

Iosco County Medical Care Facility

Notes to Financial Statements December 31, 2008 and 2007

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Assets Limited as to Use - Assets limited as to use include assets set aside by the board of trustees for future capital improvement, over which the board retains control and may, at its discretion, subsequently use for other purposes.

Property and Equipment - Property and equipment amounts are recorded at historical cost. Depreciation is computed on the straight-line method. Costs of maintenance and repairs are charged to expense when incurred.

Sick and Vacation Pay - Sick and vacation pay are charged to operations when earned. Unused benefits are recorded as a current liability in the financial statements.

Net Assets - Net assets are classified into two components. Net assets invested in capital assets net of related debt consist of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. Unrestricted net assets are remaining net assets that do not meet the definition of invested in capital assets net of related debt or restricted.

Resident Trust Liability - The State Department of Treasury requires facilities to administer and account for monies of patients. The liability for funds held for residents on the balance sheet represents resident trust fund deposits.

Maintenance of Effort - Maintenance of effort (M.O.E.) is a County obligation to the State of Michigan. Every month, the County receives a bill from the State of Michigan for each Medicaid patient day that was approved by the State during that month. M.O.E. expense amounted to \$52,887 and \$54,828 for the years ended December 31, 2008 and 2007, respectively, was paid by the Facility, and is included in operating expenses.

Taxes Receivable/Deferred Tax Revenue - Taxes are levied on December 1 and are payable on February 15. The cities and townships within the County bill and collect the property taxes for the County. County property tax revenue is recognized when levied. Deferred property taxes are amounts levied at December 1 of the current year, but applied to future operations.

In 2006, the voters of Iosco County approved a levy annually up to \$0.4557 (\$0.4395 rolled back for Headlee) per \$1,000 of assessed valuation for the purpose of general operations of the Facility for 10 years through 2015.

Iosco County Medical Care Facility

Notes to Financial Statements December 31, 2008 and 2007

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Service Revenue - The Facility's principal activity is operating a long-term healthcare facility for the elderly. Revenue is derived from participation in the Medicaid and Medicare programs, as well as from private-pay residents. Amounts earned under the Medicaid and Medicare programs are subject to review and audit by the third-party payors, and make up a significant portion of revenue earned during each year, as follows:

	Percent	
	2008	2007
Medicaid	75	74
Medicare	13	9

The payment methodology related to these programs is based on cost and clinical assessments that are subject to review and final approval by Medicaid and Medicare. Any adjustment that is a result of this final review and approval will be recorded in the period in which the adjustment is made. In the opinion of management, adequate provision has been made for any adjustments that may result from such third-party review.

Medicaid reimburses the Facility for routine service costs on a per diem basis, prospectively determined. Services rendered to Medicare program beneficiaries are paid at prospectively determined rates based upon clinical assessments completed by the Facility that are subject to review and final approval by Medicare.

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. Management believes it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoings. While no such regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation, as well as significant regulatory action including fines, penalties, and exclusion from the Medicare and Medicaid programs.

Quality Assurance Program - The Facility's Medicaid revenue has been partially funded by a program called the quality assurance assessment program (QAAP). During the year ended December 31, 2008, the Facility received Medicaid revenue related to the QAAP totaling \$750,043. During the year ended December 31, 2007, the Facility received Medicaid revenue related to the QAAP totaling \$678,178.

Iosco County Medical Care Facility

Notes to Financial Statements December 31, 2008 and 2007

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

During the year ended December 31, 2008, the Facility was assessed a provider tax totaling \$486,023. During the year ended December 31, 2007, the Facility was assessed a provider tax totaling \$429,031. This provider tax is based on the number of non-Medicare resident days of service as reported in the previous year's cost report. The State billed for the tax on a monthly basis. Approximately \$0 and \$36,000 of provider tax was due and included in accounts payable at December 31, 2008 and 2007, respectively.

Operating Revenue and Expenses - The Facility's statement of revenue, expenses, and changes in net assets distinguished between operating and nonoperating revenue and expenses. Operating revenue results from exchange transactions associated with providing long-term care services. Nonexchange revenue, including taxes, grants, and contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenue. Operating expenses are all expenses incurred to provide long-term care services, other than financing costs.

Note 2 - Deposits and Investments

The Facility's deposits and investments are composed of the following:

	2008		2007	
	Cash and Cash Equivalents	Assets Limited as to Use	Cash and Cash Equivalents	Assets Limited as to Use
Deposits:				
County treasurer	\$ 2,261,929	\$ 1,825,056	\$ 2,846,733	\$ 1,581,184
Bank	9,494	-	9,097	-
Total	<u>\$ 2,271,423</u>	<u>\$ 1,825,056</u>	<u>\$ 2,855,830</u>	<u>\$ 1,581,184</u>

Cash - County Treasurer - These funds were under the control of the County treasurer, who deposited these funds with a bank.

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

Iosco County Medical Care Facility

Notes to Financial Statements December 31, 2008 and 2007

Note 2 - Deposits and Investments (Continued)

The Facility's deposits and investments are subject to several types of risks, including custodial credit risk of bank deposits and investments, interest rate risk, credit risk, and concentration of credit risk. It is impractical to determine the amount of risk associated with the Facility's funds as these funds are only a portion of the total county deposits.

Note 3 - Accounts Receivable

The details of resident accounts receivable are as follows:

	2008	2007
Resident accounts receivable	\$ 984,914	\$ 600,180
Allowance for uncollectible accounts	(58,743)	(58,743)
Net resident accounts receivable	<u>\$ 926,171</u>	<u>\$ 541,437</u>

The Facility provides services without collateral to its residents, most of whom are local residents and insured under third-party payor agreements. The mix of receivables from residents and third-party payors is as follows:

	Percent	
	2008	2007
Medicare	52	26
Medicaid	38	54
Other payors	10	20
Total	<u>100</u>	<u>100</u>

Note 4 - Property and Equipment

The cost of property and equipment and related depreciable lives for December 31, 2008 are summarized below:

	January 1, 2008	Additions	Transfers	Disposals	December 31, 2008	Depreciable Life - Years
Building	\$ 6,439,919	\$ 59,276	\$ -	\$ (5,149)	\$ 6,494,046	10-40
Equipment	1,568,210	-	-	(39,558)	1,528,652	5-20
Construction in progress	1,273	362,028	-	-	363,301	-
Total	8,009,402	421,304	-	(44,707)	8,385,999	
Less accumulated depreciation:						
Building	1,751,753	184,292	-	(4,386)	1,931,659	
Equipment	1,196,428	69,032	-	(39,044)	1,226,416	
Total	2,948,181	253,324	-	(43,430)	3,158,075	
Net carrying amount	<u>\$ 5,061,221</u>	<u>\$ 167,980</u>	<u>\$ -</u>	<u>\$ (1,277)</u>	<u>\$ 5,227,924</u>	

Iosco County Medical Care Facility

Notes to Financial Statements December 31, 2008 and 2007

Note 4 - Property and Equipment (Continued)

During 2007, the Facility entered into a contract with an architect for the design of two 10-bed greenhouses. Construction contracts of about \$2,015,000 exist. At December 31, 2008, the remaining commitment on these contracts approximated \$1,863,000.

The cost of property and equipment and related depreciable lives for December 31, 2007 are summarized below:

	January 1, 2007	Additions	Transfers	Disposals	December 31, 2007	Depreciable Life - Years
Building	\$ 5,693,160	\$ 592,967	\$ 153,792	\$ -	\$ 6,439,919	10-40
Equipment	1,552,456	22,618	-	(6,864)	1,568,210	5-20
Construction in progress	153,792	1,273	(153,792)	-	1,273	-
Total	7,399,408	616,858	-	(6,864)	8,009,402	
Less accumulated depreciation:						
Building	1,574,721	177,032	-	-	1,751,753	
Equipment	1,134,506	68,786	-	(6,864)	1,196,428	
Total	2,709,227	245,818	-	(6,864)	2,948,181	
Net carrying amount	\$ 4,690,181	\$ 371,040	\$ -	\$ -	\$ 5,061,221	

Note 5 - Defined Benefit Multiple-employer Pension Plan

As disclosed in Note 1, the Facility is a component unit of Iosco County. Iosco County, including the Facility, participates in the Michigan Municipal Employees' Retirement System. The Michigan Municipal Employees' Retirement System (the "System") is an agent multiple-employer defined benefit pension plan that covers all employees of the County. The System provides retirement, disability, and death benefits to plan members and their beneficiaries. The Michigan Municipal Employees' Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the System. This information can be requested by writing to:

Michigan Municipal Employees' Retirement System of Michigan
1134 Municipal Way
Lansing, Michigan 48917
or by calling (800) 767-6377

The obligation to contribute to and maintain the System for these employees was established by negotiations with the County's competitive bargaining units. The Facility's contribution requirement is actuarially determined and is equal to the normal cost plus the level annual percentage of payroll payment required to amortize the unfunded actuarial accrued liability over 30 years.

Facility contributions to the plan for the years ended December 31, 2008, 2007, and 2006 were \$229,785, \$233,669, and \$216,153, respectively.

Iosco County Medical Care Facility

Notes to Financial Statements December 31, 2008 and 2007

Note 6 - Risk Management

The Facility is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Facility has purchased commercial insurance for malpractice and general liability claims, workers' compensation, and employee medical benefit claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The Facility is insured against potential professional liability claims under an occurrence-basis policy, whereby all claims resulting from incidents that occur during the policy period are covered up to insured limits, regardless of when the claims are reported to the insurance carrier. There were no known outstanding or pending claims at December 31, 2008 and 2007.

Additional Information



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To the Iosco County Department of
Human Services Board
Iosco County Medical Care Facility

We have audited the financial statements of Iosco County Medical Care Facility as of December 31, 2008 and 2007. Our audits were made for the purpose of forming an opinion on the financial statements taken as a whole. The schedules of net service revenue and operating expenses are presented for the purpose of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Plante & Moran, PLLC

February 23, 2009

Iosco County Medical Care Facility

Schedule of Net Service Revenue

	Year Ended December 31	
	2008	2007
Skilled Nursing Services		
Daily net room revenue:		
Medicaid	\$ 4,000,773	\$ 4,020,270
Medicare	745,057	493,205
Private pay and other	718,230	885,962
Total daily net room revenue	5,464,060	5,399,437
Ancillary revenue:		
Pharmacy	198,128	102,802
Therapy services	298,935	242,337
Other ancillary services	24,351	14,816
Total ancillary revenue	521,414	359,955
Net skilled nursing services revenue	5,985,474	5,759,392
Revenue deductions:		
Provision for contractual discounts	(564,469)	(381,010)
Bad debt expense	(22,778)	50,364
Total revenue deductions	(587,247)	(330,646)
Net service revenue	<u>\$ 5,398,227</u>	<u>\$ 5,428,746</u>

Iosco County Medical Care Facility

Schedule of Operating Expenses

	Year Ended December 31		
	2008		2007
	Salaries	Other	Total
Fringe benefits	\$ -	\$ 1,130,246	\$ 1,130,246
Administration	355,507	341,643	697,150
Plant operations	84,359	62,279	146,638
Utilities	-	212,433	212,433
Laundry	69,802	29,356	99,158
Housekeeping	192,679	54,347	247,026
Dietary	261,577	285,693	547,270
Diversional therapy	93,664	5,625	99,289
Other ancillary services	-	55,627	55,627
Therapy services	106,707	42,321	149,028
Pharmacy	-	182,853	182,853
Nursing	1,928,990	213,484	2,142,474
Provider tax	-	486,023	486,023
Other services	-	96	96
Depreciation and amortization	-	253,324	253,324
Maintenance of effort	-	52,887	52,887
2008 totals	<u>\$ 3,093,285</u>	<u>\$ 3,408,237</u>	<u>\$ 6,501,522</u>
2007 totals	<u>\$ 2,981,866</u>	<u>\$ 3,096,696</u>	<u>\$ 6,078,562</u>

February 23, 2009

To the Iosco County Department of
Human Services Board
Iosco County Medical Care Facility

We have audited the financial statements of Iosco County Medical Care Facility (the "Facility") for the year ended December 31, 2008 and have issued our report thereon dated February 23, 2009. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated September 24, 2008, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities. Our responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement.

As part of our audit, we considered the internal control of Iosco County Medical Care Facility. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on November 12, 2008.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Iosco County Medical Care Facility are described in Note I to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2008.

We noted no transactions entered into by the Facility during the year for which there is a lack of authoritative guidance or consensus.

There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events.

Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was the allowance for doubtful accounts.

We evaluated the key factors and assumptions used to develop the allowance for doubtful accounts in determining that they are reasonable in relation to the financial statements taken as a whole.

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. During the audit, we suggested three audit adjustments. The quality assurance revenue and receivable was adjusted by \$58,610, a construction retainage amount of \$15,569 was recorded in accounts payable and capital assets, and an adjustment of \$3,122 was made to adjust taxes receivable and deferred revenue. The attached schedule summarizes uncorrected misstatements of the financial statements. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For the purpose of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management's Representations

We have requested certain representations from management that are included in the management representation letter dated February 23, 2009.

Management's Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Facility's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Facility's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition of our retention.

This information is intended solely for the use of the Iosco County Department of Human Services Board and management of Iosco County Medical Care Facility and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Plante & Moran, PLLC

A handwritten signature in black ink, reading "J. Eric Conway". The signature is written in a cursive, flowing style.

J. Eric Conway, CPA, FHFMA
Partner

To the losco County Department of
Human Services Board
losco County Medical Care Facility

February 23, 2009

Client: losco County Medical Care Facility
Y/E: December 31, 2008

SUMMARY OF UNRECORDED POSSIBLE ADJUSTMENTS

The pretax effect of misstatements and classification errors identified would be to increase (decrease) the reported amounts in the financial statement categories identified below:

Ref. #	Description of Misstatement	Current Assets	Long-term Assets	Current Liabilities	Long-term Liabilities	Equity	Revenue	Expenses	Net Income
KNOWN MISSTATEMENTS:									
A1									
A2									
ESTIMATE ADJUSTMENTS:									
B1	To adjust QAS revenue			\$ (25,000)				\$ (25,000)	\$ 25,000
B2	To adjust AP revenue			2,625				2,625	(2,625)
IMPLIED ADJUSTMENTS:									
C1									
C2									
		\$ -	\$ -	-	\$ -	\$ -	\$ -	-	-
	Total	\$ -	\$ -	\$ (22,375)	\$ -	\$ -	\$ -	\$ (22,375)	\$ 22,375